

## Message Text

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17

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 IO-10 CIAE-00

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LAB-04 SIL-01 GSA-01 FEA-01 INT-05 PA-01 PRS-01 L-02

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R 202053Z MAY 75

FM AMEMBASSY CARACAS

TO AMEMBASSY KINGSTON

INFO SECSTATE WASHDC 8799

AMCONSUL PARAMARIBO

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EO 11652 NA

TAGS: PFOR, VE, JM

SUBJ: JAMAICAN MINISTER ALLEN ISAACS - BAUXITE AGREEMENT WITH  
VENEZUELA

REF: A KINGSTON 1790, B CARACAS 4280 C PARAMARIBO 72

D CARACAS A-02

BEGIN SUMMARY. THIS CABLE DEALS WITH ALLAN ISAACS' REFERENCE  
TO GOV COMMITMENT FOR FORWARD SALE OF BAUXITE TO JAPAN. OUR  
UNDERSTANDING IS THAT VENEZUELA INTENDS TO SELL ALUMINUM,  
NOT BAUXITE, TO JAPAN. NEW INSTALLATIONS AND EXPANSION OF EXISTING  
FACILITIES WILL RAISE VENEZUELAN ALUMINUM PRODUCTION TO  
400,000 TONS ANNUALLY BY 1979. A CONSORTIUM OF JAPANESE COMPANIES  
WILL PARTICIPATE IN THE EXPANSION PROGRAM, AND TAKE IN RETURN  
UP TO 160,000 TONS OF ALUMINUM AT A REPORTED SIX PERCENT UNDER  
THE WORLD PRICE. VENEZUELA SIGNED THE BAUXITE AND ALUMINA  
AGREEMENTS WITH JAMAICA IN ORDER TO GUARANTEE A SOURCE OF SUPPLY  
FOR THE NEW EXPANSION. THE GOV IS ALSO REPORTED TO RETAIN  
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AN INTEREST IN SURINAM AS A SOURCE OF BAUXITE. VENEZUELA

PLANS EVENTUALLY TO BUILD ITS OWN ALUMINA INDUSTRY. END  
SUMMARY.

1. OUR UNDERSTANDING IS, CONTRARY TO ISAAC'S STATEMENT, THAT VENEZUELA PROPOSES TO SELL ALUMINUM TO JAPAN AND NOT BAUXITE. THE BACKGROUND FOR THIS IS BRIEFLY SUMMARIZED AS FOLLOWS. MORE DETAIL IS CONTAINED IN REF D.

2. A MAJOR NEW ALUMINUM PRODUCING FACILITY KNOWN AS VENALUM WILL BE CONSTRUCTED AT PUERTO ORDAZ. IT IS PROJECTED TO BE COMPLETED BY 1979 WITH A CAPACITY OF 280,000 TONS ANNUALLY. VENALUM, WHICH WILL REQUIRE AN INVESTMENT OF \$430 MILLION, WILL BE OWNED 80 PERCENT BY THE VENEZUELAN GOVT THRU THE VENEZUELAN GUAYANA CORPORATION(CVG) AND 20PERCENT BY A CONSORTIUM OF JAPANESE COMPANIES. THE JAPANESE INVESTORS WILL BE SHOWA DENKO, MITSUBISHI, SUMITOMO, KOBE STEEL, MARUBENI CORPORATION, AND ONE OTHER CO. REYNOLDS ALUMINUM WILL MANAGE VENALUM BUT WILL HAVE NO DIRECT INVESTMENT, ALTHOUGH IT IS REPORTED TO OWN SHARES IN SOME OF THE PARTICIPATING JAPANESE FIRMS.

3. THE EXISTING ALCASA FACILITY, OWNED JOINTLY BY REYNOLDS AND CVG, WILL HAVE ITS PRESENT PRODUCTION CAPACITY OF 50,000 TONS INCREASED IN TWO STAGES OVER THIS PERIOD TO 120,000 TONS. THIS WOULD GIVE VENEZUELA A PRODUCTION OF 400,000 TONS ANNUALLY BY 1979. THE TWO FACILITIES WILL HAVE THEIR OPERATIONS COORDINATED BY REYNOLDS, WITH VENALUM PRODUCTION SLATED ENTIRELY FOR EXPORT AND ALCASA FILLING DOMESTIC REQUIREMENTS FIRST AND EXPORTING ITS SURPLUS. IN ABOUT TWO YEARS, WHILE EXPANSION IS UNDER WAY, EXPORTS OF ALUMINUM WILL START TO JAPAN AND GRADUALLY INCREASE TO A LEVEL OF 160,000 TONS ANNUALLY BY 1979. THE JAPANESE INVESTORS WILL BE THE RECIPIENTS OF THE ALUMINUM, AND THE AGREEMENT CALLS FOR DELIVERY AT SIX PERCENT UNDER THE PREVAILING WORLD PRICE AT THAT TIME.

4. EMBASSY COMMENT. LOUIS REYNOLDS OF THE REYNOLDS ALUMINUM CO. AND RETIRED GENERAL RAFAEL ALFONZO, FORMER PRESIDENT FOR MANY YEARS OF CVG, ARE THE GUIDING LIGHTS BEHIND THE ALUMINUM PROJECTS HERE. ORIGINALLY, JAPANESE INVESTORS WERE TO HAVE OWNED 75PERCENT OF VENALUM, BUT THIS WAS CANCELLED BY PRESIDENT PEREZ IN ONE OF HIS FIRST ECONOMIC DECISIONS AFTER ASSUMING OFFICE.

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THE JAPANESE INVESTORS WERE REPORTEDLY SO MIFFED THAT THEY DECIDED TO FORGET ABOUT ANY DEVELOPMENT HERE.

5. REYNOLDS CLAIMS TO HAVE CONVINCED THE JAPANESE TO RECONSIDER AND ACCEPT A MINORITY PARTICIPATION ON THE BASIS THAT THEIR PRIME INTEREST WAS IN OBTAINING ALUMINUM AT A FAVORABLE PRICE, AND NOT IN OWNING THE PRODUCTION FACILITIES. THE JAPANESE AGREED TO THIS IDEA, AND AGREED TO WORK WITH REYNOLDS. THE BAUXITE AND ALUMINUM

SUPPLY AGREEMENTS AND VENEZUELAN PARTICIPATION IN THE BAUXITE MINING VENTURE (REF B) ARE INTENDED TO GUARANTEE A CONTINUED RAW MATERIAL SUPPLY FOR THE AMBITIOUS DEVELOPMENT PROGRAM. ALTHOUGH THERE ARE SOME REPORTS TO THE CONTRARY, GENERAL ALFONZO INDICATED THIS WEEK TO THE EMBASSY THAT VENEZUELA MAY ALSO FOLLOW UP ON ITS AGREEMENTS WITH SURINAM (REF C) TO INSURE AN ADDITIONAL BAUXITE SUPPLY FROM THAT SOURCE. VENEZUELA ALSO INTENDS TO ESTABLISH AN ALUMINA INDUSTRY AT PUERTO ORDAZ. LOUIS REYNOLDS HAS STRONGLY ADVISED THAT THIS BE DONE RATHER THAN CONTINUE TO DEPEND UPON IMPORTED ALUMINA. REYNOLDS HAS STATED THAT THE DOMESTIC FACILITY COULD BEGIN BY CONVERTING IMPORTED BAUXITE, BUT ULTIMATELY USE LOCAL ALUMINUM-BEARING CLAYS AS THE RAW MATERIAL SOURCE.

6. GENERAL ALFONZO TOLD THE EMBASSY THT IT IS NOT TOO EARLY FOR DISCUSSION OF DETAILS OF INDIVIDUAL SALES CONTRACTS WITH JAPAN, WITHIN TERMS OF REFERENCE OF PREVIOUSLY DESCRIBED SUPPLY AGREEMENT. THIS MIGHT BE THE ORIGIN OF ISAAC'S REFERENCE TO FORWARD SALES BY THE GOV TO JAPAN.  
SHLAUDEMAM

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